



ALL EARS!!

The Litchfield Fund Weekly Newsletter

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

In the late 1980s this Litchfield partner found himself at SeaTac, his luggage missing! In the days when luggage tracking was not nearly as *good* as it is *bad* today, this kicked off a series of phone calls to find the lost bag. The bag missed a connection, had been placed on another carrier, missed that connection & was shipped to SeaTac on a cargo plane. The contents of the cargo plane were destined for Pier 39 at the Seattle docks, where ships headed to Asia were being laded. More phone calls finally located the bag & returned it to me all properly stickered & ready for shipment *on a slow boat to China!*

Slow growth in China: The expression ‘on a slow boat to China’ apparently arose from the game of poker. Referring to a player who consistently & slowly lost, the winner would say, “I’d like to get you on a slow boat to China”, the idle time on a long sea voyage being filled by the game of poker! Of course, American composer Frank Loesser, winner of an Academy Award for *Baby, It’s Cold Outside* & Tonys for *Guys & Dolls* and *How to Succeed in Business Without Really Trying* turned it into something romantic with his 1948 composition (*I’d Like to Get You*) *On a Slow Boat to China*. Investors waiting for returns in this market probably feel like those positive numbers are on a slow boat to China, of course due to the slow growth in China.

This year started off with a bang, and not just because North Korea may have tested an H-Bomb. It takes a lot of time to sift through the various pieces of data, writings, and opinions to formulate a picture of what is happening and the concerns that investors are experiencing. *All Ears!!* will tackle a few of those concerns based on what we have read & heard this week.

Is the U.S. entering a recession & Bear market? At this point in time we would say no we are not near a recession or bear market. Job growth seems steady, wage growth weak but still positive & manufacturing growth is positive but slowing. Manufacturing is not as big a piece of the pie as it was in the past, so this data point is not a reliable indicator of future direction anyways. We are nearing the end of a Bull cycle hence earnings & multiples are decreasing, but Goldman’s recent lowered 2016 S&P earnings outlook showed growth at 11%! The FED got one interest rate hike out of the way, and seems to be preaching temperance going forward.

Is China taking down the world economy? China’s growth has slowed but remains positive & not necessarily recessionary. China as a more open economy is a relatively recent event. The halts & pauses the Chinese government uses on its markets are somewhat experimental for them, as is the pricing of the yuan. They are learning as they go as to how they can impact markets, growth, trade & still provide Chinese investors access to markets. This volatility will

remain throughout 2016, and U.S. investors must gain some comfort with China's rocky markets. Meanwhile there appears to be indications that the Eurozone is moving past credit, currency & growth concerns and set for a steadier 2016, offsetting weaker Chinese growth.

Will oil prices & geo-political concerns impact the markets? Absolutely, but these will be short-lived, as 2015 seemed to prove. We live in dangerous times with weak U.S. leadership, never a good combination for world peace. Oil prices will remain low merely because Saudi Arabia can starve their enemy Iran by keeping supply high & prices low. Germany may be reaching a crisis point in the refugee migration & world terror is likely anywhere on the planet, including the U.S. Markets will react temporarily to any event.

Industry News: *Epic Provisions*, makers of meat snacks & expanding their product set, was acquired by General Mills (**GIS**). *Epic* will operate under the Annie's group. Terms for the purchase of the Austin-based meat company were not announced. *Spindrift*, who received a \$2M investment in 2014 from Prolog Ventures, completed a \$7.2M raise this week. The raise will be used to support growth of the soda/seltzer company. *Harmless Harvest* coconut water completed a \$50M raise working with its original investor group & Wells Fargo. *Harmless Harvest* temporarily halted production a few weeks ago to address FDA concerns in its processing. *Thrive Market* announced the introduction of a private label brand.

Portfolio News: It was a strangely quiet week for the stocks in our portfolio. Several stocks received positive analyst comments, especially Sprouts Farmers Market (**SFM**), ConAgra (**CAG**), Natural Grocers by Vitamin Cottage (**NGVC**), **GNC**, United Natural Foods (**UNFI**), & Whitewave Foods (**WWAV**). Analysts are taking a wait & see perspective for Whole Foods (**WFM**) in 2016.

As a whole, **The Litchfield Fund** thinks that the investment community remains somewhat unknowledgeable as to the potential of companies in this sector. If we start with the premise that the CEOs of these companies have the best understanding of what the future consumer will be buying, the acquisition activity of **WWAV**, **GIS**, Hain Celestial (**HAIN**) & others like Hormel, Perdue, Pinnacle Foods, & Flower Foods should make that very clear. Reports indicate a banner year for investment dollars in sector start-ups, some reports of more than \$16B in 2015! Kroger (**KR**) finished the year as the number 3 retailer & it looks to Natural/Organic to be its flag bearer for future growth. We feel that job growth, low oil prices, some wage growth & a general desire for healthier living will position the sector for better than average 2016 results.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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